Gansler Calls for Increased Use of Performance-Based Payments



THE UNDER SECRETARY OF DEFENSE 3010 DEFENSE PENTAGON WASHINGTON, D.C. 20301-3010

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS DIRECTORS, DEFENSE AGENCIES

SUBJECT: Use of Performance-Based Payments (PBP) The Department has had the authority to make performance-based payments to Ine Department has had the authority to make performance-based payments to contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years, but with the exception of the contractors under sole source fixed-price contracts for several years. contractors under sole source fixed-price contracts for several years, but with the exception of their significant use with "other transactions," this financing technique has not been used widely. Their significant use with corner transactions; this financing recnnique has not been used widely Recently, the Federal Acquisition Regulation was changed to remove the prohibition and to promit and competitively possitioned acquisition and development and competitively possitioned acquisitions. Recently, the Federal Acquisition Regulation was changed to remove the pronibition on using PBPs on research and development and competitively negotiated acquisitions, and to permit PBPs on research and development and competitively negotiated acquisitions. PBPs on research and development and competitively negotiated acquisitions, and to permit prime contractors with cost-type contracts to use PBPs on fixed-price subcontracts (FAC 97-16).

There are many significant advantages to be gained from the use of PBPs instead of Inere are many significant advantages to be gained from the use of PBPs instead of cost-based progress payments. The Department must take maximum advantage of the benefits of payments and progress payments. cost-based progress payments. The Department must take maximum advantage of the benefits of performance-based payments as the preferred means of providing contract financing under the preferred means of providing contract financing under the preferred means of providing contracts by making this form of comment the primary and most comment to the preferred means of providing this form of comment the primary and most comment to the primary and most comment the primary and most comment to the primary and the or performance-pased payments as the preferred means of providing contract financing under fixed-price contracts by making this form of payment the primary and most commonly used form of contract financing. For fixed vicer 2002, we must specify DPD to the primary form of contract financing. inxed-price contracts by making this form of payment the primary and most commonly used form of contract financing. For fiscal year 2002, we must ensure PBP is the primary form of contract financing in at location payment of contract valued of the primary form. or contract financing. For fiscal year 2002, we must ensure PBP is the primary form of contract financing in at least 25 percent of contracts valued at \$2 million or more. By fiscal year 2005, this mathed of financing about the most provided to the most provide rinancing in at least 25 percent or contracts valued at \$2 million or more. By fiscal year 2005, to method of financing should be the most prevalent form used in fixed-price contracts, such as these for complex persons or for production offerth

In fiscal year 1999, there were 195 contract actions valued at \$5.6B that used this form those for complex services or for production efforts. of contract financing. By fiscal year 2005, this method of financing should be used in most or contracts that provide financing. Exceptions to the use of this contract financing technique contracts that provide financing. Exceptions to the use of this contract financing technique should only be agreed to by the contracting officer when supported by a sound business case Should only be agreed to by the contracting officer when supported by a justification. The attached summarizes PBP policy and lessons learned.

As with many of the acquisition reforms that we are pursuing, changing the predominant Way we provide financing payments under fixed price contracts will require all of us to become way we provide infallicity payments under fixed price confides will require all of us to become more sophisticated customers. To that end, I have directed the Deputy Under Secretary of Defense for Acquisition Reform to lead the development and distribution of a guidance document that will assist contracting officers and program managers in the selection and document that will assist contracting officers and program managers in the selection and valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators to use in conjunction with performance-based valuation of meaningful technical progress indicators and officers in the performance of the perf valuation of meaningful recimical progress mulcators to use in conjunction with penomination of financing payments. I look forward to your enthusiastic and effective implementation of the patients and progress the particle of the particle tinancing payments. Hook forward to your entrustastic and effective implementation of the actions necessary to successfully transition our contract financing practices to this new paradigm. J.S. Gansler

Attachment: As stated

Editor's Note: This information is in the public domain. To download the attachment to Gansler's memorandum, go to the Defense Acquisition Reform Web site at www.acg.osd.mil/ar/.